

NEW JERSEY OFFICE MARKET

FIRST QUARTER 2017

Office Market Offers Mixed Results

Rents higher, absorption varied

More activity in northeast part of region

ECONOMY

Slow and steady

In general, the United States labor market continues to improve. As of March 2017, the national unemployment rate was 4.5%, falling to its lowest level in nearly 10 years. The President's new tax plan is expected to be addressed in the very near future, and it is widely anticipated that it will speed up economic growth and put money back into consumers' pockets. The commercial real estate market hopes tax reform will spur hiring among tenants that fill office space. Most experts predict a continued slow and steady growth for 2017, which some argue defines a healthier market.

Private sector job growth has helped lower New Jersey's unemployment rate below the national average. Like the U.S., the jobless rate in New Jersey has reached a 10-year low of 4.4%. In February 2017, the State added 12,300 private sector jobs, coming on the heels of 15,900 added in January. Increased employment was also diverse as all nine major industry sectors gained. In total, 77,000 private sector jobs have been added in New Jersey during the past 12 months. While many job total increases continue in industries such as education, health, leisure and hospitality, sectors which help improve office occupancy levels, including professional and business services and financial activities, have posted solid additions over the past 12 months.

VACANCY

Mixed-bag

The office market improved slightly in Q1 2017 as the overall vacancy improved to 15.1%, from 15.5% the previous quarter. Leasing activity can best be defined as a mixed-bag, as slightly more than half of the submarkets reported lower vacancy rates. In northern New Jersey, recent tenant move-ins have improved occupancy levels in Parsippany, the Morristown Region, Route 280/Suburban Essex and the Hudson Waterfront, which continues to benefit from proximity to New York City and its live-work-play, amenities-filled environment. In central New Jersey, the vacancy rate in the Monmouth East submarket is trending lower, largely due to Bell Works redevelopment in Holmdel, which continues to attract amenities-seeking tenants.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

VACANCY



15.1%

Mixed bag

ABSORPTION



690,632 SF

Preleased construction bought occupancy

ASKING RENT



\$26.38 PSF

Highest since Q3 2008

RBA DELIVERED



588,170 SF

Conversions anticipated

AVERAGE OFFICE SALE PRICE



\$167 PSF

Highlighted by portfolio sale

JOB GROWTH

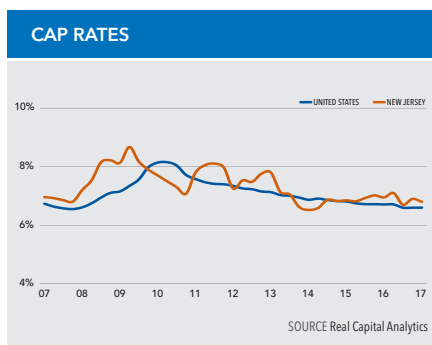
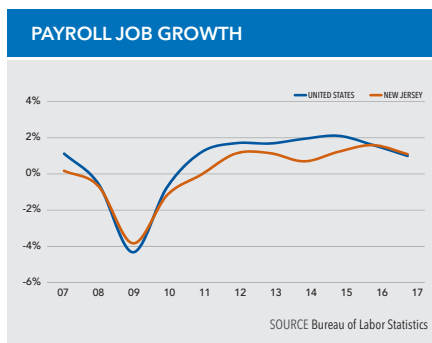
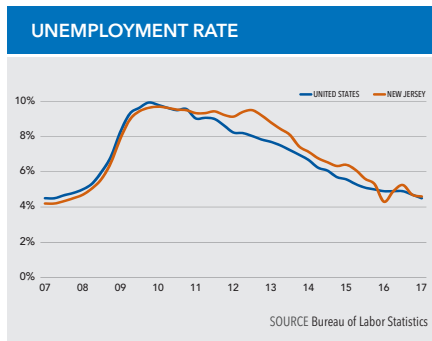


+35,500 jobs*

Growth rebounded
*thru February

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ABSORPTION

Increased leasing along the coast

Two-thirds of the submarkets experienced positive year-over-year net absorption, contributing to a total of nearly three million square feet of absorption between the start of second-quarter 2016 and the end of first-quarter 2017, the highest year-over-year total since the end of 2007. However, while the year-over-year totals were impressive, absorption was tempered during Q1 2017 as some space returned to the market due to previously signed relocations.

Leasing this quarter felt a bit similar to the industrial market, driven by retailers and consumer products companies. Significant activity took place in markets with proximity to New York City, most specifically on the Hudson Waterfront and near the George Washington Bridge. In the Hudson Waterfront submarket, Tory Burch accepted the \$10.7 million incentive it was offered in 2016 from the New Jersey Economic Development Authority to relocate its back-office operations from Manhattan to Jersey City. The American designer of women's clothing and lifestyle products already occupies a large distribution facility in central New Jersey. Also in Jersey City, IT Cosmetics, a creator and seller of makeup and skin care products that recently acquired L'Oreal, leased approximately 60,000 square feet at Newport Office Center.

In the Bergen East submarket, more specifically near the George Washington Bridge, consumer goods giant Unilever committed to staying in Englewood Cliffs for 18 years in a sale-leaseback of its North American headquarters. In addition, Jeep leased 56,500 square feet in Englewood Cliffs, which it plans to convert to a showroom. Finally, following nearly seven years of proposals, lawsuits and variances, LG Electronics finally broke ground on its 350,000-square-foot North American headquarters in Englewood Cliffs.

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
Unilever	700 Sylvan Ave, Englewood Cliffs	320,000	Sale/Leaseback
Broadridge Financial Solutions	2 Gateway Center, Newark	160,070	New
Tory Burch	499 Washington Blvd., Jersey City	93,720	New

New Jersey Office Market Indicators by Class

SUBMARKET	INVENTORY	DELIVERIES (SF)	QUARTER NET ABSORPTION	YOY NET ABSORPTION	DIRECT VACANCY	SUBLET VACANCY	TOTAL VACANCY	AVERAGE RATE PSF
Class A	153,623,744	588,170	528,495	1,152,873	15.3%	1.6%	16.9%	\$28.89
Class B	98,235,139	0	162,137	1,809,694	11.9%	0.3%	12.2%	\$22.23
TOTAL	251,858,883	588,170	690,632	2,962,567	14.0%	1.1%	15.1%	\$26.38

RENTAL RATES

Growth almost everywhere

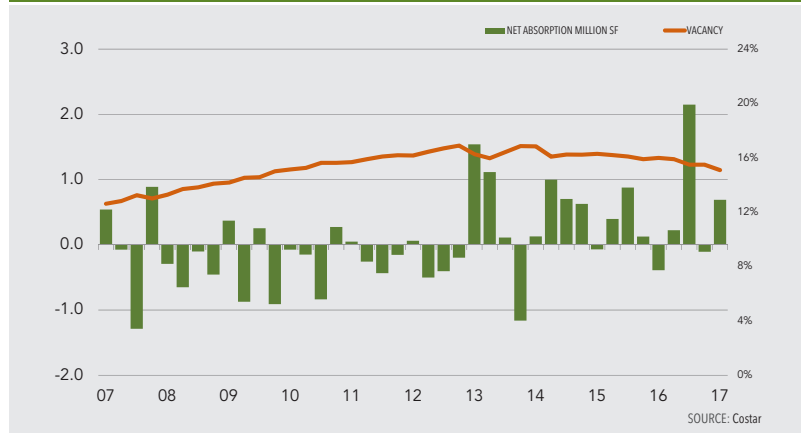
Rent growth continues as renovations and class A demand are pushing up averages. The Q1 2017 lease rate of \$26.38 PSF compares favorably to \$26.16 the previous quarter and \$25.60 one year ago. Moreover, the latest average is the highest it has been since Q3 2008 and nearly 10 percent higher than the post-recession-low seen in 2011. Two-thirds of the submarkets experienced both quarterly and year-over-year rent increases, with Somerset/I-78 East, Parsippany Region and Bergen Central growing fastest. In fact, asking rents in each of these regions are currently more than \$2.00 PSF higher than they were 12 months ago, including \$2.34 PSF higher in the Somerset/I-78 East corridor. Submarkets with declining asking rents during Q1 2017 include Edison South, Bergen East and Route 280/ Suburban Essex.

INVESTMENT MARKET

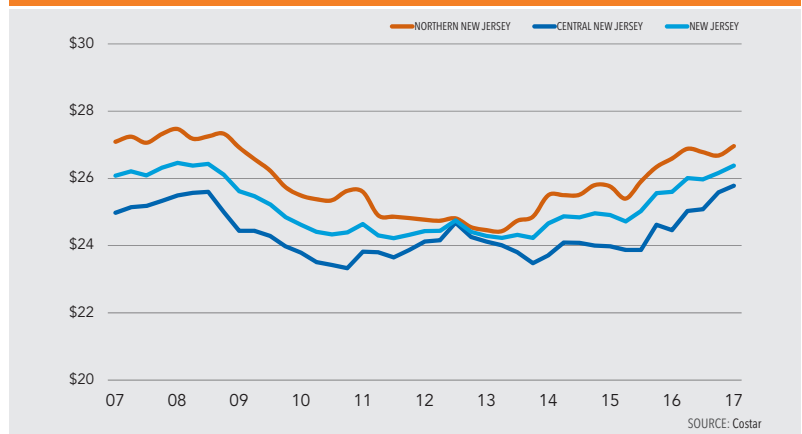
Portfolio sale highlights activity

The best assets continue to trade, whether in urban or suburban markets. Perhaps the best example of this trend occurred during Q1 2017 as one of the largest office portfolio transactions in the State's history took place in northern New Jersey. RXR Realty sold six class A properties in Short Hills and Madison totaling +/- 1.1 million SF for \$368 million. The buyer, Mack-Cali Realty Corporation, had been a seller much of 2016 but is remained focused on well-located product with high growth potential. In central New Jersey, Capital Commercial Investments, Inc. closed on a small, +/- 554,000 SF, three-building portfolio in Pennington in a transaction that was announced during Q4 2016. The properties, fully leased to Merrill Lynch, were sold by American Finance Trust, Inc. for \$148 million.

NEW JERSEY NET ABSORPTION AND VACANCY



NEW JERSEY AVERAGE ASKING RENTAL RATES



OUTLOOK

Relocations leaving space behind

Slow growth is anticipated for the remainder of 2017. While job growth in the private sector has been quite strong in New Jersey, office sublease availability has been climbing slowly, and it remains to be seen how the market will absorb the space being left behind as a result of several significant company relocations. For example, Broadridge Financial Solutions signed the largest new lease for +/-160,000 SF to relocate 1,000 to Newark during the quarter. However, the financial communications firm will leave behind twice that amount of space in Jersey City. On the positive side, it is anticipated that creative office projects and office conversions will help improve vacancies by reducing the amount of obsolete product on the market. ■

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New Jersey Office Market Indicators by Submarket

SUBMARKET	INVENTORY	DELIVERIES (SF)	QUARTER NET ABSORPTION	YOY NET ABSORPTION	DIRECT VACANCY	SUBLET VACANCY	TOTAL VACANCY	AVERAGE RATE PSF
Bergen Central	8,263,293	-	(14,517)	(48,003)	12.6%	2.7%	15.3%	\$27.58
Bergen East	10,718,212	-	(31,386)	(62,853)	11.2%	0.8%	12.0%	\$24.99
Bergen North	11,612,532	-	(49,709)	403,621	10.6%	1.0%	11.6%	\$27.11
Brunswick	4,677,045	-	100,502	147,081	11.4%	0.2%	11.6%	\$27.77
Edison South	3,922,197	-	(1,385)	(4,634)	13.2%	0.6%	13.8%	\$20.35
Hudson Waterfront	23,786,261	-	139,032	158,661	8.8%	2.3%	11.2%	\$38.07
Meadowlands	7,035,119	-	11,320	61,579	15.6%	1.3%	16.8%	\$24.81
Monmouth East	13,317,596	-	(14,770)	207,556	16.5%	0.4%	16.9%	\$25.00
Monmouth West	3,060,208	-	(22,196)	35,912	9.5%	0.0%	9.5%	\$22.96
Morris West	3,742,836	-	(15,858)	(2,058)	34.4%	0.1%	34.5%	\$22.10
Morristown Region	12,116,491	-	106,514	389,848	16.2%	1.1%	17.5%	\$28.22
Newark/Urban Essex	19,250,226	-	(121,899)	(159,042)	15.2%	0.4%	15.6%	\$29.84
Parsippany Region	20,005,977	-	(107,013)	476,427	20.7%	1.5%	22.2%	\$26.46
Princeton Area	35,266,350	555,000	335,514	(139,119)	13.3%	0.7%	14.0%	\$26.48
Route 280/Suburban Essex	10,653,062	-	146,782	180,925	12.8%	0.1%	13.0%	\$26.88
Route 287 South	11,870,205	-	27,459	312,834	14.6%	0.7%	15.3%	\$19.53
Short Hills/Millburn	4,655,750	-	(29,414)	746,171	3.5%	0.6%	4.1%	\$34.55
Somerset/I-78 East	22,759,593	13,170	97,297	(5,801)	9.4%	2.4%	11.7%	\$27.25
Union/Parkway	5,871,903	-	61,989	(6,092)	14.6%	0.4%	14.9%	\$23.30
Wayne/Paterson	12,486,635	20,000	69,256	34,172	22.0%	0.2%	22.2%	\$21.64
Woodbridge/Metro Park	6,787,392	-	3,114	235,382	15.2%	0.9%	16.1%	\$31.61
TOTAL	251,858,883	588,170	690,632	2,962,567	14.0%	1.1%	15.1%	\$26.38

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in northern and central New Jersey. This report includes single-tenant, multi-tenant and owner-user Class A & B office properties 10,000 SF and larger.



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